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ECONOMIC COMMISSION FOR LATIN AMERICA

STATEMENT TO THE ECONOMIC COMMISSION FOR LATIN AMERICAN ON THE WORK OF THE INTERNATIONAL MONETARY FUND IN LATIN AMERICAN COUNTRIES

Mr. Chairman:

We are very grateful for the invitation extended to the International Monetary Fund by the Secretary-General of the United Nations to participate in this inaugural session of the Economic Commission for Latin America and for the opportunity thus presented to us to address this important meeting. We also wish to express our genuine appreciation for the hospitality of the Government of the Republic of Chile. Last, but not least, we wish to thank the delegates who have had kind words for the International Monetary Fund, which we appreciate even more because they have so very largely come from the delegates who have had an opportunity to observe the work of the Fund at close range.

At the same time, we regret that some delegates may have left the utterly erroneous impression that the International Monetary Fund has, to some extent, failed its members in Latin America. We feel that such an impression, if it exists, must be promptly corrected. The Fund has no other reason for being there to help its members - all of its members, in the Americas no less than in Europe and the East. The Fund can be most helpful to its members by understanding their problems and by co-operating with them in finding the best solution to these problems. It is equally important that members should understand the Fund, how it works, what it can do, and also what it cannot do.

The Fund counts 18 of the Latin American Republics among its members. The Articles of Agreement of the Fund have given recognition to

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the active interest which the Latin American countries have taken in the Fund ever since its inception at Bretton Woods by providing that the Latin American members shall at all times have two of their own representatives on the Fund's Board of Executive Directors. Needless to emphasize that the views of Latin America have always carried considerable weight in the Fund's councils, thanks largely to the ability of the Executive Directors from Brazil and Mexico and their respective alternates who, far from confining themselves to the advancement of the special interests of their own countries, have consistently acted as the genuine representatives of all the Latin American members which helped elect them to the Board of Executive Directors.

In surrounding itself with a technically competent staff, the Fund has bent every effort to secure the services of technicians from the largest possible number of member countries. Consequently, the staff now numbers 425 persons from 28 member countries.

Some of you may think of the Fund as a distant organization in Washington, primarily concerned with imposing on its members a degree of stability in their exchange rates that they cannot maintain and a measure of freedom in exchange transactions that they cannot afford. This is a mistake. The Fund is interested in orderly exchange arrangements, that is one of its principal objectives. But the Fund has always recognized that such an objective can be attained only in a healthy world economy in which its members prosper together. It has never hesitated to urge on its members the national policies which can give them economic strength and stability, and the international policies through which they can co-operate in establishing a prosperous world economy.

The Fund has never suggested to a country the maintenance of a parity for its currency which is not suited to its economy. On the contrary, where the Fund has found that an unsuitable parity is stifling the trade of a country and undermining its sound economic development, it has not hesitated to recommend to that country the measures necessary

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to strengthen its economy; and among these measures it has recognized as an essential part the adjustment of exchange rates. There is no instance where a member has wanted to change the parity of its currency to promote exports or to restrict imports that the Fund has not been prepared to give its help and approval. Certainly, it is the objective of the Fund to secure stability of exchange rates; but the Fund is aware that such stability must grow out of healthy national economies that have a strong position in international trade.

The Fund has never suggested to a country the continuance of absolute freedom of exchange transactions when the country's reserve position has made it necessary to impose restrictions in order to conserve these resources for vital national needs. From time to time the Fund has urged a member to take measures to strengthen its exchange controls. When such measures become necessary they are not of themselves a restraining influence on trade. Lack of exchange resources compels a country to limit its imports to the amount it can pay for. Exchange controls simply assure the country that these resources will not be dissipated in paying for the import of luxuries and non-essentials; they make it possible to direct the use of these resources for essential consumption and national development. Certainly, it is the objective of the Fund to eliminate exchange restrictions on current transactions; but the Fund recognizes that freedom of exchange transactions must be based on a strong balance of payments position in which current import needs are met by current exports, and foreign capital required for development is secured through long-term loans.

We emphasize these points to make sure that there is no misunderstanding about the practical attitude of the Fund to these exchange questions. Far from being dogmatic, it is based on a careful understanding of the particular conditions and the particular needs of each member of the Fund. That being said, no one will deny that the Fund has to prevent disorderly exchange practices not suited to the economy of a country

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and liable to do harm to its neighbours. The members of the Fund, and this includes our American members, have a right to know that their capacity to export will not be suddenly weakened by competitive exchange depreciation by other countries; they have a right to know that they will not suddenly be excluded from important markets by arbitrary and discriminatory exchange restrictions by other countries.

It is not in terms of general principles, however worthy and important they may be, that the usefulness of the Fund to its members can be explained or understood. The Fund places great stress on frequent and friendly consultation with its members. It is in this intimate collaboration that the Fund fulfills its function as a centre for international co-operation on monetary and financial problems. During the past two years, the officials or the staff of the Fund have visited every one of its American members. These consultations have not been of a formal character. In most cases they have simply been for the purpose of assuring the Fund that it is well informed of the problems of its American members and that they are aware of the willingness of the Fund to be of assistance to them.

Several countries have requested the Fund to send technical missions to study their financial problems and to report to them on measures that could be taken to strengthen their economic and financial position. If you will speak with your colleagues on this Commission from these countries, they will tell you of the eagerness of the Fund to understand the difficulties confronting the country and to approach its problems from a sympathetic point of view. We do not wish to leave the impression that the Fund has worked any miracles; we do want to emphasize that it has been helpful in providing technical assistance in formulating constructive policies. The Fund has been able to do this because it has a competent staff, well informed on international financial problems, experienced in devising workable measures, and with the good will to appreciate that the Fund performs its function by helping members, not

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by scolding them. To the Fund, each member is a living organism to whom its economic problems are of primary importance. The Fund does not seek to mold these countries in a common pattern, nor to force on them premature adoption of policies that are not suited to their economic capacity or their economic needs.

We dwell at great length on the consultative function of the Fund, because its usefulness is too easily overlooked. The financial resources of the Fund are undoubtedly very important because they can help members through a difficult time while they put into effect the policies necessary to strengthen their economies. But it is no less important that the Fund help members in analyzing their problems and in finding the proper measures as a basis for these policies. The Bretton Woods Agreement provides that "the Fund ... shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund."

In this field of its work the Fund has made great progress. The information collected by the Fund is vast in quantity and broad in scope; it provides the factual basis for studying international monetary and financial problems.

Up to the present most of the studies have been made in connection with the operational work of the Fund and, therefore, are apt to be directed toward specific exchange problems and policies. But, in the preparation of the studies, a large amount of basic information has been collected, and the staff has acquired a thorough knowledge of the fundamental financial and economic problems of Latin America.

The Fund is giving a great deal of attention to the collection and standardization of financial statistics, and has been publishing, since the beginning of 1948, its monthly bulletin "International Financial Statistics", which contains the financial statistical series of 57 countries, including all member countries from Latin America plus those of Argentina.

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As one of its principal tasks the Fund has worked actively toward a standardization of the procedures used by the various member countries in preparing their balance of payments calculations, thus continuing and furthering the pioneer work done by the League of Nations. An international meeting at Washington, D.C., on this subject was called in the fall of 1947 by the Fund at which were present economists and technicians of the United Nations, other international agencies, and representatives of some 30 countries. As a result of these discussions, the Fund has published a Manual designed to stimulate and standardize practices in this important field of work and thus improve comparisons of data between countries and enhance the usefulness of these data to all countries.

We come now to the question of the resources of the Fund and their use by members. The Fund has total assets of about $8,000 million of which about $2,800 million is in U.S. currency and gold. This may seem an enormous sum to be used for stabilizing currencies; but remember that it must be used to meet the needs of 46 countries, and that the amount in U.S. dollars and gold can hardly be regarded as excessive in a world in which the problem of dollar payments will for some years be of urgent concern. Two points must be given further emphasis: the amount any one member may use of the resources of the Fund is limited by its quota, and the purpose for which the Fund resources may be used is specified by the Fund Agreement as temporary help in meeting current balance of payments deficits while measures are taken to restore equilibrium.

To our American members, most of whom are faced with pressure on their monetary reserves to pay for current imports and with the need for foreign capital to help finance their development, the limitations on the amount and the purpose for which they can secure aid from the Fund may seem onerous. If the function of the Fund is seen in proper perspective - particularly as one of a number of institutions providing financial assistance - we believe that the usefulness of the Fund to the American Republics will be better realized. The Fund is holding a collection of

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currencies, including U.S. dollars and gold, which constitutes a common reserve for all its members. To each of these members its ability to acquire currency from the Fund is an element of strength in its international reserve position.

So understood, the quotas of the Latin American members of the Fund are not inconsiderable or unimportant. The 18 Latin American members of the Fund have quotas of about $500 million. Their gold and U.S. dollar reserves amount to about $1,500 million. In the aggregate, therefore, the quotas in the Fund are equal to one-third of their own holdings of reserves. But this does not give a full picture. Reserves are unequally distributed among the Latin American countries. The Fund is especially important to those countries whose own reserves are limited. For most Latin American countries their quotas in the Fund are half as large, or more, as their own reserves of gold and U.S. dollars. It should be of no small help to a country to know that its access to the Fund increases by one-half the reserves available for appropriate use in an emergency.

The use of the Fund's resources is limited to the purposes provided in the Fund Agreement. They cannot be used to finance reconstruction and development; they cannot be used to maintain a continuing unbalance in current payments. These limitations were put into the Fund Agreement for the protection of the Fund and in the interest of its members. They are no more restrictive than the limitations a country with modest reserves ought to put on the use of its own gold and dollar holdings. It is not desirable for a country, from its own point of view, to dissipate its limited monetary reserves to maintain an excessive level of imports of consumer goods, particularly at a time when its current receipts from exports are already large. It is far better for a country to introduce policies that will prevent the development of an excessive import demand for luxuries and non-essentials. It is not desirable for

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a country, if its monetary reserves are limited, to use these reserves to finance a development program, however sound and necessary this development may be. It is far better for a country to secure foreign capital to pay for the imports associated with such a program.

Let us emphasize again that we speak of countries with limited reserves. For them, the essential character of reserves must be understood and respected. Reserves are for use in emergencies, to continue essential imports when foreign exchange receipts fall off, to provide the time necessary to put into effect corrective measures that will restore the proper balance of payments. A country's quota in the Fund should also be used only under the conditions stated above. The Fund has not hesitated to help members to meet their current international payments when they take steps to correct the tendency to overimport. This was the situation that led the Fund to help Mexico and Chile by the sale of dollars for their local currencies. The Fund stands ready to give its other members help in moderate amount under the same conditions.

This is not an unreasonable standard for the use of the Fund's resources. It is designed to assure members that they will have reserves to continue essential imports when they need these reserves most. It is the same standard the Fund has established for all its members. It would be just as great a mistake for European countries to draw down their access to the Fund for reconstruction as it would be for Latin American countries to do this for development. The Fund has made this clear to its European members. Resources for reconstruction and development should come from long-term credits, not by using up limited monetary reserves. The purpose of reserves is to be available for use when needed; that is what the Fund Agreement assures.

To summarise, the work of the Fund in connection with its Latin American members, as well as with all its other members, may be classified under three broad categories: (a) consultation and technical assistance; (b) research and (c) financial assistance.

The Economic Commission for Latin America has been created to deal with economic problems which are in part of a monetary and exchange nature and, therefore, of specific concern to the International Monetary Fund. The Fund has been working on these problems since its establishment in the spring of 1946, and a close collaboration between the two organizations will be most fruitful. Fund facilities will be made fully available to the newly created Commission in the same spirit with which the Fund has cooperated with ECLA's sister organizations, the Economic Commissions for Europe and for Asia and the Far East. On its side, the Fund expects to profit greatly from the work of the Commission, since it realizes fully that the current problems of Latin America are largely a reflection of deeper economic maladjustments, which the Commission will be well fitted to study.

A number of statements presented by delegations have already yielded certain substantial proposals, two of which may be of particular interest to the Fund - - (a) the problems of inflation in Latin America and (b) the problem of multilateralizing international payments. We

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believe that some tentative indications of the reaction which may be expected from the Fund might facilitate the deliberations at this session.

Regarding the problems of inflation in Latin America, it may be of interest to mention that the Fund is now completing an exhaustive study entitled "Inflation in Latin America", which is scheduled for release this coming summer. Other comprehensive studies on Latin America now being prepared by the Fund are "Balance of Payments Problems of Latin America" and "Exchange Problems in Latin America".

Regarding the problem of multilateralizing international payments, the Fund wishes it clearly understood that it has a particular interest in any plans for facilitating international payments through limited transferability of currencies, be it on an intra-regional or inter-regional basis. Article I of its Articles of Agreements lists among the purposes of the Fund: "To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade." It is fundamental to the working of the Fund that facilities should be established by which countries can use the proceeds of their exports to pay for their imports. Unfortunately, this cannot be generally done at present. Since it commenced operations in March 1947, the Fund's resources have been available to multilateralize Latin American payments. They have not so been used, primarily because the Latin American members of the Fund have been faced with large dollar needs, far more urgent than their needs for other currencies. Under these conditions they reserved their access to the Fund to help meet their more difficult payments problems in dollars. Another consideration may have been the fact that obligations to the Fund are in effect gold or dollar obligations.

From the point of view of the Fund, it is not of fundamental importance how the Latin American members arrange to use, in moderate amounts, the Fund's resources in connection with multilateral payments. It is important, however, that members proposing to use the Fund's

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resources in connection with any such system should take all necessary steps to strengthen their international economic position. Nor must aid from the Fund be the occasion for an unwarranted expansion in Latin American trade of a type which does not contribute to essential consumption and investment. Beyond that the Fund would expect that a monetary policy designed to halt current inflation and sound fiscal and credit policies would become an inherent part of any program of the Latin American members which may wish to set up a multilateral payments system.

As an illustration of the Fund's sympathetic interest in any multilateral payments scheme, it may be of interest to mention that the Fund has been closely observing and studying the efforts by certain Western European countries to establish an effective multilateral clearing system. These countries effected last January their first compensation transactions under their agreement. The results to date have not been overly encouraging - - in their first meeting they compensated transactions totalling \$1.7 million out of total compensation possibilities of \$39 million - due largely (a) to the concentration of drawings on one or a few creditor countries, and the consequent exhaustion of their credit commitments; and (b) the accumulating deficits of the weakest debtor countries, and the consequent exhaustion of their drawing rights. An important first step has been taken, however, in the direction of ultimate multilateralization of European payments in that the machinery for multilateral offsetting has been set in motion and the monthly contacts established between the payments experts of the participating countries may gradually result in payments arrangements between three or more countries.

We are gratified with the proposals made by some Delegations that the Fund be requested actively to participate in thorough studies of any project designed to facilitate multilateral payments in Latin America which this Conference might agree upon.

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The above is in summary the work that the Fund has done and is doing in connection with Latin American countries. As a result of its studies, the Fund hopes to contribute to a better understanding of the causes and nature of the monetary and exchange problems of Latin America; and to be in a position to give constructive technical advice to its members. With the moderate financial assistance that it provides, it can give countries a breathing spell to put into effect the policies necessary to strengthen their economies. But the monetary and exchange problems arising in countries which have decided to develop their economies at a fast rate are necessarily large in magnitude, and the Fund obviously cannot be the only source of help in meeting them. However, the Fund is prepared to co-operate with other international organizations, as well as with the monetary authorities of its member countries, to work towards their solution. The Economic Commission for Latin America may count, therefore, on the fullest and frankest cooperation of the International Monetary Fund.
